

---

---

# HOUSE BILL No. 1397

---

## DIGEST OF INTRODUCED BILL

**Citations Affected:** IC 6-1.1-10; IC 6-2.5-5-4.5; IC 6-3.1-24; IC 6-3.1-23.8-10.

**Synopsis:** Tax exemptions and credits. Exempts from property tax certain inventory used to produce finished goods that qualify for interstate commerce exemptions. Establishes a credit against state tax liability, phased in over ten years, based on property tax paid on inventory not eligible for the exemption. Exempts research and development equipment from the state gross retail tax.

**Effective:** January 1, 2003.

---

---

## Espich, Bosma

---

---

January 15, 2002, read first time and referred to Committee on Ways and Means.

---

---

C  
o  
p  
y



PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2001 General Assembly.

## HOUSE BILL No. 1397

A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

*Be it enacted by the General Assembly of the State of Indiana:*

1 SECTION 1. IC 6-1.1-10-31.1 IS AMENDED TO READ AS  
2 FOLLOWS [EFFECTIVE JANUARY 1, 2003]: Sec. 31.1. A person  
3 who:

- 4 (1) is required to file a personal property return;
- 5 (2) has personal property in a warehouse or a foreign trade zone
- 6 on the assessment date of any year; and
- 7 (3) wishes to claim the exemption provided under section 29,
- 8 29.3, 30, ~~or 30.5, or 31.2~~ of this chapter;

9 shall report on the person's personal property return, in the manner  
10 prescribed by the ~~state board of tax commissioners;~~ **department of**  
11 **local government finance**, the true tax value of the property for which  
12 the exemption is claimed.

13 SECTION 2. IC 6-1.1-10-31.2 IS ADDED TO THE INDIANA  
14 CODE AS A **NEW** SECTION TO READ AS FOLLOWS  
15 [EFFECTIVE JANUARY 1, 2003]: **Sec. 31.2. (a) For purposes of this**  
16 **section, "production inventory" for an assessment date means**  
17 **inventory that is:**



C  
o  
p  
y

(1) not finished goods inventory; and  
 (2) held on the assessment date for use in the production of the types of finished goods with respect to which the owner or possessor claims exemption for the assessment date:

- (A) under section 29(b), 29(c), or 29(d) of this chapter;
- (B) under section 30(b), 30(c), or 30(e) of this chapter; or
- (C) as property placed in the foreign trade zone exclusively for export to a foreign country under section 30.5(a)(2) of this chapter.

(b) Production inventory is exempt from property taxation for an assessment date in the amount determined by dividing:

- (1) the assessed value of the taxpayer's finished goods inventory that qualifies for exemption from property taxation under the provisions referred to in subsection (a)(2) for the assessment date; by
- (2) the total assessed value of the taxpayer's finished goods inventory for the assessment date;

and applying this ratio to the taxpayer's total production inventory for the assessment date. A taxpayer that uses the allocation method shall keep records that adequately establish the validity of the allocation.

(c) A taxpayer who possesses production inventory owned by another person may claim an exemption provided by this section if:

- (1) the taxpayer includes the production inventory on the taxpayer's personal property tax return; and
- (2) the taxpayer is able to show that the owner of the production inventory would otherwise have qualified for an exemption under this section.

SECTION 3. IC 6-2.5-5-4.5 IS ADDED TO THE INDIANA CODE AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE JANUARY 1, 2003]: Sec. 4.5. (a) As used in this section, "research and development equipment" means tangible personal property that:

- (1) is installed after December 31, 2002;
- (2) consists of:
  - (A) laboratory equipment;
  - (B) research and development equipment;
  - (C) computers and computer software;
  - (D) telecommunications equipment; or
  - (E) testing equipment;
- (3) is used in research and development activities devoted



C  
o  
p  
y

1 directly and exclusively to experimental or laboratory  
2 research and development for:

- 3 (A) new products;  
4 (B) new uses of existing products; or  
5 (C) improving or testing existing products;  
6 (4) is acquired by the property owner for purposes described  
7 in this subsection; and  
8 (5) was never before used by the owner for any purpose in  
9 Indiana.

10 The term does not include equipment installed in facilities used for  
11 or in connection with efficiency surveys, management studies,  
12 consumer surveys, economic surveys, advertising or promotion, or  
13 research in connection with literacy, history, or similar projects.

14 (b) Transactions involving research and development equipment  
15 are exempt from the state gross retail tax.

16 SECTION 4. IC 6-3.1-24 IS ADDED TO THE INDIANA CODE  
17 AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE  
18 JANUARY 1, 2003]:

19 **Chapter 24. Credit for Property Taxes Paid on Production**  
20 **Inventory**

21 **Sec. 1.** As used in this chapter, "pass through entity" means:

- 22 (1) a corporation that is exempt from the adjusted gross  
23 income tax under IC 6-3-2-2.8(2); or  
24 (2) a partnership.

25 **Sec. 2.** As used in this chapter, "production inventory" has the  
26 meaning set forth in IC 6-1.1-10-31.2(a).

27 **Sec. 3.** As used in this chapter, "state tax liability" means a  
28 taxpayer's total tax liability that is incurred under:

- 29 (1) IC 6-2.1 (gross income tax);  
30 (2) IC 6-3-1 through IC 6-3-7 (adjusted gross income tax);  
31 (3) IC 6-3-8 (supplemental net income tax);  
32 (4) IC 6-5.5 (financial institutions tax); and  
33 (5) IC 27-1-18-2 (insurance premiums tax);

34 as computed after the application of the credits that under  
35 IC 6-3.1-1-2 are to be applied before the credit provided by this  
36 chapter.

37 **Sec. 4. (a)** A taxpayer is entitled to a credit for a taxable year for  
38 the ad valorem property taxes paid by the taxpayer in the taxable  
39 year on production inventory.

40 (b) The amount of the credit is equal to the product of:

- 41 (1) the appropriate percentage specified in subsection (c);  
42 multiplied by

C  
o  
p  
y



(2) the amount of property taxes paid on production inventory by the taxpayer during the taxable year.

(c) The percentage described in subsection (b)(1) is determined by the calendar year in which the property taxes on production inventory are paid and is set forth in the following table:

CALENDAR YEAR	PERCENTAGE
2003	10%
2004	20%
2005	30%
2006	40%
2007	50%
2008	60%
2009	70%
2010	80%
2011	90%
2012 and thereafter	100%

(d) If a taxpayer pays property taxes in two (2) different calendar years during the taxpayer's same taxable year, the taxpayer shall apply the appropriate percentage specified for each calendar year to the property taxes paid in each calendar year to compute the credit for the taxable year.

Sec. 5. A taxpayer that is eligible with respect to the same production inventory for:

(1) the credit under this chapter; and

(2) the credit under IC 6-3.1-23.8;

may elect to apply only one (1) of the two (2) credits.

Sec. 6. (a) If the amount determined under section 4 of this chapter for a taxpayer in a taxable year exceeds the taxpayer's state tax liability for that taxable year, the taxpayer may not carry the excess:

(1) over to the following taxable years; or

(2) back to the previous taxable years.

(b) A taxpayer is not entitled to a refund of any unused credit.

Sec. 7. If a pass through entity does not have state income tax liability against which the tax credit may be applied, a shareholder or partner of the pass through entity is entitled to a tax credit equal to:

(1) the tax credit determined for the pass through entity for the taxable year; multiplied by

(2) the percentage of the pass through entity's distributive income to which the shareholder or partner is entitled.

Sec. 8. A taxpayer that possesses production inventory owned by



1 another person may claim the credit under this chapter if:

2 (1) the taxpayer includes the property on the taxpayer's  
3 personal property tax return; and

4 (2) the taxpayer is able to show that the owner of the  
5 production inventory would otherwise have qualified for the  
6 credit under this chapter.

7 **Sec. 9.** To receive the credit provided by this chapter, a taxpayer  
8 must claim the credit on the taxpayer's state tax return or returns  
9 in the manner prescribed by the department. The taxpayer shall  
10 submit to the department proof of payment of an ad valorem  
11 property tax and all information that the department determines  
12 is necessary for the calculation of the credit provided by this  
13 chapter.

14 SECTION 5. IC 6-3.1-23.8-10 IS ADDED TO THE INDIANA  
15 CODE AS A NEW SECTION TO READ AS FOLLOWS  
16 [EFFECTIVE JANUARY 1, 2003]: **Sec. 10.** A taxpayer that is  
17 eligible with respect to the same production inventory (as defined  
18 in IC 6-1.1-10-31.2(a)) for:

19 (1) the credit under this chapter; and

20 (2) the credit under IC 6-3.1-24;

21 may elect to apply only one (1) of the two (2) credits.

22 SECTION 6. [EFFECTIVE JANUARY 1, 2003] IC 6-3.1-24 and  
23 IC 6-3.1-23.8-10, both as added by this act, apply only to taxable  
24 years that begin after December 31, 2002.

C  
o  
p  
y

